

## CREDIT OPINION

4 November 2022

Update



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### RATINGS

#### International Personal Finance plc

Domicile	Leeds, United Kingdom
Long Term Rating	Ba3
Type	LT Corporate Family Ratings - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# International Personal Finance plc

## Update to credit analysis

### Summary

[International Personal Finance plc's](#) (IPF) corporate family rating (CFR) is Ba3 and the rating for the senior unsecured Medium-Term Note (MTN) programme is (P)Ba3. IPF is a UK-based non-prime instalment lender operating in seven<sup>1</sup> countries. The outlook on the issuer is stable.

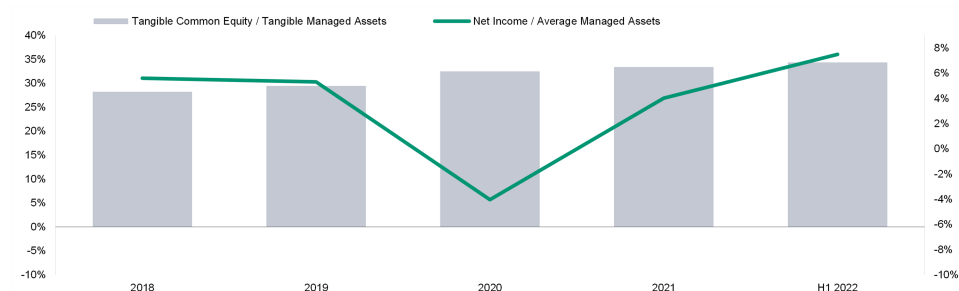
The Ba3 CFR reflects IPF's solid loss-absorption capacity, that mitigated the strain on profitability during the pandemic; and its relatively short loan book maturities compared with its funding, supporting cash accumulation. Furthermore, its international footprint provides economic diversification.

However, IPF's asset quality is weak, reflecting the non-prime segment; uncertainties on EU credit demand due to the impact of inflation and the Russia-Ukraine conflict; and debt maturity concentration.

The (P)Ba3 MTN programme rating reflects IPF's Ba3 CFR; and our Loss Given Default analysis for Speculative-Grade Issuers taking into account IPF's liability structure, aligning the MTN programme rating with the CFR because of the absence of more senior-ranking secured funding.

### Exhibit 1

#### Strong capital levels and profitability track record mitigate asset risk IPF's leverage and return on assets



Tangible common equity declined in 2018 as a result of the introduction of IFRS 9.

Source: Company's financials

## Credit strengths

- » High risk-adjusted profitability
- » Strong capital position, which provides solid loss-absorption capacity
- » Reverse maturity transformation, which allows rapid cash flow generation and risk exposure adjustment
- » Strong and established franchise, with good geographical diversification

## Credit challenges

- » Weak asset quality because of the non-prime credit profile of its targeted customer segment
- » Risks stemming from adverse regulatory changes
- » Reduced credit volume following constraints on originations and collections because of the pandemic
- » Medium-term refinancing risks

## Outlook

The stable rating outlook reflects our expectation that IPF will continue to perform in line with our expectations for the Ba3 CFR over the next 12-18 months, reflecting its solid capitalisation, and improved profitability and asset risk.

## Factors that could lead to an upgrade

In light of high macroeconomic uncertainties, we do not expect upward pressure on IPF's CFR to develop over the next 12-18 months. However, a future upgrade of the ratings will depend on improvements in the overall financial profile, in particular via significantly reduced debt maturity concentration, reducing refinancing risk; and an improvement in our assessment of IPF's operating environment.

The senior unsecured MTN programme rating may also be upgraded if IPF were to issue substantial amounts of subordinated debt.

## Factors that could lead to a downgrade

IPF's CFR could be downgraded if its solvency weakens significantly because of a prolonged strain on its profitability; or its cash flow and liquidity weaken.

The positioning of the CFR could be reassessed if IPF is subject to significantly adverse regulatory changes that affect its business viability in some of its markets.

The senior unsecured MTN programme rating could be downgraded if IPF were to issue secured debt, which would increase encumbered assets and, thus, the expected loss for unsecured creditors.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### International Personal Finance plc (Consolidated Financials) [1]

	06-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total managed assets (GBP Million)	1,087.7	999.3	1,023.9	1,322.7	1,378.0	(6.5) <sup>4</sup>
Total managed assets (USD Million)	1,321.0	1,348.7	1,399.6	1,752.2	1,755.0	(7.8) <sup>4</sup>
Net Income / Average Managed Assets (%)	7.5	4.0	-4.0	5.3	5.6	3.7 <sup>5</sup>
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	34.3	33.4	32.5	29.5	28.2	31.6 <sup>5</sup>
Problem Loans / Gross Loans (Finance) (%)	32.4	32.9	38.6	31.4	32.4	33.5 <sup>5</sup>
Net Charge-offs / Average Gross Loans and Leases (%)	7.3	4.9	17.7	16.2	17.7	12.7 <sup>5</sup>
Debt Maturities Coverage (%)	213.3	2700.0	77650.0	122.0	412.1	16219.5 <sup>5</sup>
Secured Debt / Gross Tangible Assets (%)	1.3	1.3	1.3	1.1	3.0	1.6 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.

Sources: Moody's Investors Service and company filings

## Profile

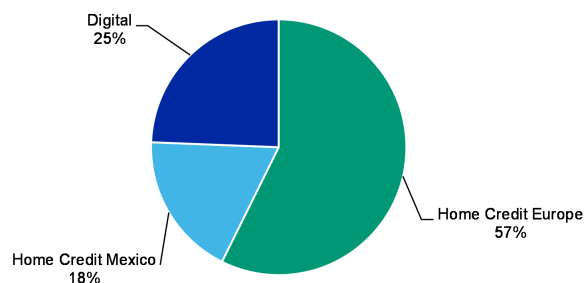
International Personal Finance plc (IPF) is a UK-based non-prime instalment lender with operations in three continents, including in seven countries in Europe (excluding Spain and Finland, which are in collect out, and the UK), Mexico and Australia. IPF was founded in 2007 following the demerger of Provident Financial plc's international business, although its history dates back to the period before it was part of Provident Financial plc.

IPF serves 1.75 million customers under two business lines: Home Credit — small-sum, short-term unsecured consumer loans; and Digital — small-sum lines of credit and instalment loans to consumers. We expect Home Credit customer numbers in Europe to continue to decline, offset by the growth in the Mexican Home Credit and multijurisdictional Digital businesses.

IPF's customers typically have no or poor credit history and are underserved or financially excluded by traditional high-street lenders.

Exhibit 3

### Distribution of closing net receivables as of June 2022



Home Credit Europe includes Poland, the Czech Republic, Hungary and Romania; Digital includes Estonia, Finland, Lithuania, Latvia, Spain, Australia, Poland and Mexico.

Source: Company's financials

## Recent developments

Tighter financial conditions and upside risks to inflation further weaken the global growth outlook, leading to revised projections of GDP growth for G-20 economies of 2.5% in 2022, down from our May projection of 3.1%, followed by 2.1% in 2023, down from our May projection of 2.9%. Furthermore, the Russia-Ukraine conflict remains central to the larger macroeconomic picture and the risk of further

energy shocks remains high, with central banks struggling to navigate to an equilibrium where inflation falls but economic activity does not slip into a deep recession (see the [August 2022 Update: Global growth slackens as tighter financial conditions permeate the economy](#)).

On 6 October 2022, the Lower Chamber of Parliament approved the proposal to reduce the non-interest cost of credit cap in Poland from currently 100% to 45% of the loan value, which could become effective at the end of the year. The proposal also includes new affordability rules and a requirement for non-bank financial institutions to be supervised by the Polish financial supervision authority. The Upper Chamber proposed some amendments and returned bill back to Lower Chamber to consider.

In September 2022, IPF started testing the offering of a new loan card in Poland with revolving credit limit and payment card features to be used by their customers for online and offline transactions. The credit card is excluded from the total charge of credit regulations; and all amounts drawn down on the card will be repaid by the customers in equal instalments in less than one year.

The Group's Polish subsidiary successfully obtained a Ministry of Finance ruling confirming the tax deductibility of certain expenses linked to intragroup transactions. An exceptional tax credit of £31 million was recognised in the first half of 2022 in respect of the amounts due from the Polish tax authority. Refunds of £10 million were received in the third quarter, with a further £13 million received in early October 2022. IPF expects further cash refunds of £5 million in the coming months.

Poland, Hungary and Finland introduced temporary tightening of existing rate caps during the first wave of the pandemic. The temporary reduction in the annual percentage rate (APR) cap in Hungary reverted to the previous level at the start of 2021. The Polish government introduced a temporarily reduced cap on non-interest costs of new lending until 8 March 2021, which was extended until June 2021 and has now expired.

In Hungary, the government implemented a debt repayment moratorium for all consumers until year-end 2020, which was extended four times, first until June 2021, then till September 2021, then till June 2022 and most recently till year-end 2022. Furthermore, debt repayment moratoriums were also in place in other countries such as Romania and the Czech Republic.

IPF decided to close its business in Finland and Spain in 2021, and collect out the portfolio because of regulatory developments such as further tightening of the APR cap and lower income. Also, two Digital businesses in Poland were merged and four branches in Mexico will be closed because of weak performance.

## Detailed credit considerations

### High risk-adjusted profitability, which weakened during the pandemic, but returned to moderate levels during 2022

We view IPF's profitability track record as a rating strength and assign a Ba1 Profitability score compared with the initial score of Baa2, corresponding to the average year-end 2019-21 return on assets. The assigned score reflects IPF's improved profitability in 2022 as collections remained strong and increased levels of cautious lending. However, uncertainties surrounding global inflation could strain revenue generation, volume of new credit issued and benefits of economies of scale. Additionally, Poland's proposed non-interest cost of credit cap, if implemented, will strain earnings till fully offset over next two years by new product in the form of revolving credit limit and payment card. However, as of June 2022, IPF's collections were strong in all three business segments, but remain below the pre-pandemic levels because of lower total volume of credit issued.

In H1 2022, IPF reported a net profit of £30.8 million including a net exceptional tax credit of £10.5 million, following a £22.9 million net profit in H1 2021. Credit issued increased by 12% year on year in H1 2022 and 15% year on year in Q3 2022, as IPF relaxed the credit criteria to a more normalised level. The annualised impairment as a percentage of revenue grew to 15% on the back of a 14% year-on-year receivables growth. As of H1 2022, IPF's customer receivables were £770 million versus £716 million as of year-end 2021. (At constant foreign-exchange rates, year-on-year receivables growth per annual report is 14%.) Its reported revenue increased 13.1% year on year and impairment as a percentage of revenue increased to 15%. H1 2022 performance reflected strong performances in Mexico Home Credit and IPF Digital, offset by the softening credit demand at European home credit driven by customer concerns around rising costs of living, and, in particular, the military conflict in Ukraine.

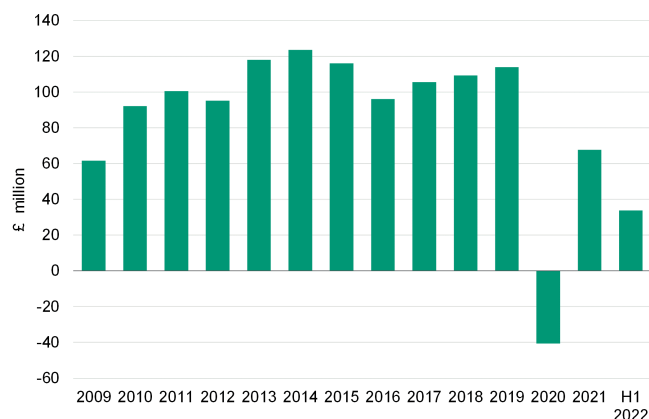
In Q3 2022, IPF's closing customer receivables were £851 million, up 15% year on year, because of strong performance in all divisions, compared with £987 million before the pandemic.

Historically, IPF has maintained strong through-the-cycle profitability, which provides good loss-absorption capacity. The decline in profitability from 2008 and 2009 was moderate because the company limited loan losses by tightening underwriting to achieve the target risk-adjusted profit. The weakest year for IPF during the last financial crisis was 2009 (see Exhibit 4), with an impairment-to-revenue ratio of 29.9% in 2009, which remained within its risk appetite target range of 25%-30%. However, the high impairment charges for expected credit losses under IFRS 9 recognised because of the pandemic led to an increase in the impairment-to-revenue ratio to 37.4% in 2020, compared with 15% in H1 2022, supported by robust customer repayments over the last 18 months.

Exhibit 4

#### IPF had been reporting strong through-the-cycle profit before the pandemic

Reported profit before tax

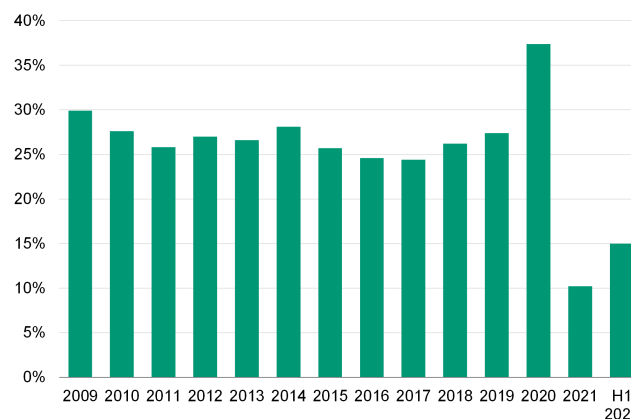


Source: Company's financials

Exhibit 5

#### IPF's impairment charges increased slightly in H1 2022

Impairment as a percentage of revenue



Source: Company's financials

### Strong capital position, which provides solid loss-absorption capacity

We view IPF's capitalisation as strong and assign an A3 Capital score, three notches lower than the score corresponding to tangible common equity (TCE)/tangible managed assets (TMA) of 34.3% as of the end of June 2022. The negative adjustment captures the expected gradual increase in leverage as IPF continues to grow, and also the risk to capital because of weaker profitability and asset quality in an uncertain economic environment. Additionally, we reflect the unseasoned nature of the new digital markets and geographical regions where the company's performance remains less tested in the assigned score.

IPF's capital position has been strong and stable over the past decade because of the company's policy of funding each loan with 40% equity. As of June 2022, the equity-to-receivables ratio was 52.4%, down from the 53.8% as of June 2021, but still above its target of 40%. The decrease in the ratio was driven by higher net receivables because of lending growth and profitable performance in all business divisions partially offset by increased equity resulting from earnings accretion. Given the strong performance in H1 2022 and the outlook for the full year, IPF paid an interim dividend of 2.7 pence per share by the end of September 2022, consistent with the new progressive dividend policy announced in February 2022 (H1 2021: 2.2 pence). Although the company has traditionally not been highly acquisitive, it has a small £23.4 million goodwill position related to its 2015 acquisition of MCB Finance (IPF Digital). We do not expect intangible assets and goodwill to increase significantly over the next two to three years, supporting our assessment of a strong TCE position, which provides loss-absorption capacity in a stress scenario.

### High asset risk, reflecting the fact that IPF lends to customers with weak credit profiles

We assign a Ca Asset Quality score to IPF, reflecting the fact that the company caters to a riskier segment of the population, and hence carries a large amount of impaired loans at all times and charges off a high proportion of loans each year. Similar to that of its peers, IPF's asset quality is a credit weakness. Because of collections outpacing new credit issuance and the contracting loan book, IPF's problem loan ratio (problem loans/gross loans) weakened in 2020. However, the loan book increased by 6.9% in the first six months of 2022 compared with a 2.5% contraction in 2021. Given the strong quality of the loan book that was originated last year under tighter underwriting standards because of the pandemic, a deterioration in asset risk because of inflationary pressures should be manageable, as reflected in an annualised increase in impairments as a percentage of revenue to 15% in H1 2022.

Based on gross Stage 3 credit-impaired loans under IFRS 9, IPF had a problem loan ratio of 32.4% as of June 2022, down slightly from 32.9% as of year-end 2021. This relatively high level of nonperforming loans partially reflects the fact that IPF limits late fee charges (if charged, these are generally used to re-engage with the customer) and makes this point clear upfront, meaning that many of its customers skip payments from time to time, at least temporarily impairing a large proportion of its loans. IPF prices its loans to factor in delayed repayment, knowing that this results in higher levels of impairments. IPF's net charge-off ratio was 7.3% as of June 2022. This high level of charge offs reflects the short-term unsecured nature of its lending and the fact that delinquent loans are charged off early.

### Rapid cash flow generation mitigates debt maturity concentration

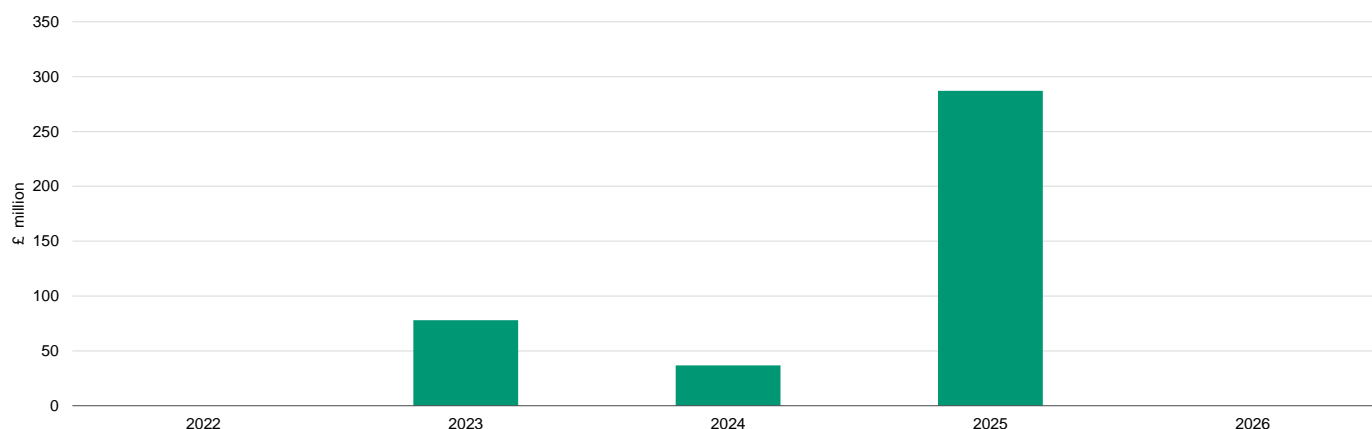
We view IPF's Cash Flow and Liquidity position as moderate and assign a Baa3 score. Our assigned score is the composition of three subfactors: a Baa3 Debt Maturities Coverage score, a B1 Funds From Operations (FFO)/Total Debt score and a low Baa1 Secured Debt/Gross Tangible Assets score.

The Baa3 Debt Maturities Coverage score reflects the medium-term maturity risk following the refinancing of the eurobond, which was due in April 2021, in line with our expectations. Following the refinancing, IPF does not have any debt due in the following 12 months. Nevertheless, the assigned score reflects the maturity concentration beyond the 12-month horizon. IPF has a well-diversified funding profile; it regularly issues small amounts in multiple currencies (naturally hedging some cash flow), and uses a mix of bank and bond financing. We also include IPF's undrawn bank facilities with maturity greater than one year as available liquidity when assessing the debt maturity coverage. As of June 2022, IPF had capacity on undrawn facilities and nonoperational cash balances of £68 million, which increased to £93 million as of September 2022, and is in a good position to fund its credit growth.

After the refinancing, around 19% of IPF's bonds mature in 2023 and 71% in 2025 (see Exhibit 6). This maturity profile reflects IPF's strategy to extend its debt maturity profile following the refinancing of the eurobond maturity that was due in April 2021 and the fact that in June 2019, IPF refinanced a part of its £101.5 million retail-eligible bond that matured during H1 2020 and issued a new £78.1 million bond maturing December 2023.

Exhibit 6

#### Bond maturity schedule as of December 2021



Source: Company's financials

The assigned B1 FFO/Total Debt score is in line with the score that was reported as of H1 2022, reflecting more normalised levels of cash generation, and new lending and cash collection than those in the previous year. During H1 2020, FFO/total debt was negative; however, by year-end 2020, IPF returned to profit and its collections improved significantly, and a moderate amount of new lending has resumed. We consider cash flow generation a strength for the company, and we believe it will improve gradually.

Given its fast collection ability because of the relatively short duration of receivables, the company is able to rapidly change its underwriting profile if economic conditions change. Furthermore, IPF has a reverse maturity transformation, which supports the credit profile and makes it possible for the company to collect cash and reduce leverage if high-yield markets are closed or it needs to exit a

market. However, if this condition is for an extended period, it would be detrimental to IPF's profit and franchise position. As of June 2022, IPF had an average lending maturity of around 12.6 months and an average committed funding maturity of 2.5 years.

The assigned Baa1 Secured Debt/Gross Tangible Assets score reflects the fact that the company has no secured financial debt, with operating leases on balance sheet being the only secured debt included in our calculation, resulting in a secured debt ratio of 1.3% as of June 2022. While this corresponds to an initial score of Aa1, we adjust the score downward by six notches to reflect the negative pledge present in the existing debt documents, meaning that the company would likely need to restructure its debt if it wishes to leverage its assets for secured funding or securitisation.

### Operating environment

We assign a B2 score to IPF's Operating Environment, based wholly on the industry risk of non-prime instalment lenders. The Macro-Level Indicator does not have any weighting in the scorecard because this score is higher than the Industry Risk score for all segments in which IPF operates.

The B2 Operating Environment score is below IPF's Ba2 Financial Profile score. Therefore, we constrain the adjusted financial profile by weighting the Operating Environment score at 70% and the financial profile at 30%, resulting in an Adjusted Financial Profile score of B1.

### Macro-level indicator

We use the average net receivables of IPF to determine the geographical split when assigning the Macro-Level Indicators. The portfolio is split among European Home Credit (57.3%; average Macro-Level Indicator of A3), Mexico Home Credit (18.3%; Baa2) and Digital (24.4%; predominantly Europe, at A3).

### Industry risk

We assign a B Industry Risk score for non-prime instalment lenders. Non-prime instalment lenders are subject to a high degree of regulatory risk, which could quickly make operations in certain markets less economically viable.

Barriers to entry in the home credit market are relatively high, while barriers to entry in the digital space are low. Particularly in the home credit market, alternative lenders such as IPF command a large market share, given the fact that customers often have limited access to banking services.

Non-prime instalment lenders are subject to high asset risk because of the borrowers' weaker credit profiles. The home credit market has existed for decades, offering credit to those that may have limited access to conventional bank borrowing. Over time, the stability of the home credit market may decline, if alternatives become more prevalent and easily accessible for unbanked customers; however, we do not see this as an immediate risk.

### Business profile and financial policy

We adjust IPF's B1 Adjusted Financial Profile score upward by one notch for its business diversification and franchise positioning. IPF has a strong and established Home Credit franchise, with a high level of brand awareness that supports customer acquisition within its regions of operation.

IPF is also geographically well diversified. The company operates in nine countries across three continents, which provides broad diversification and a buffer against economic trends and regulatory changes in individual countries. We expect the company's Mexican operations and the higher-credit-quality Digital business to continue to account for a greater proportion of the balance sheet and revenue, which will further support IPF's diversification.

### Notching considerations

The (P)Ba3 senior unsecured MTN programme rating for IPF is based on the application of our Loss Given Default for Speculative-Grade Companies rating methodology and model, and reflects the priority ranking of the senior unsecured creditors in IPF's capital structure.

## ESG considerations

### International Personal Finance plc's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7

#### ESG Credit Impact Score

# CIS-3

## Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.



Source: Moody's Investors Service

IPF's ESG Credit Impact Score is moderately negative (**CIS-3**), reflecting the limited credit impact from ESG risk to date. As a sub-prime consumer lender, IPF faces high exposure to social risks, particularly related to treating customers fairly and product pricing. Well-developed frameworks and processes help to mitigate but not eliminate these risks.

Exhibit 8

#### ESG Issuer Profile Scores

ENVIRONMENTAL

# E-2

Neutral-to-Low



SOCIAL

# S-4

Highly Negative



GOVERNANCE

# G-2

Neutral-to-Low



Source: Moody's Investors Service

### Environmental

IPF faces low environmental risks. The company has no direct exposure to environmental risk, as it is an unsecured consumer lender.

### Social

IPF faces high social risk particularly related to customer relations and treating customers fairly from both a conduct and pricing point of view. Regulatory scrutiny and intervention in many of IPF's markets increases social risk for the firm, often with financial implications. Societal trends such as digitalisation also strain the business model as do requirements to manage and mitigate potential breaches of data privacy.

### Governance

IPF's governance risks are moderate: its risk management, risk appetite and financial policies are prudent and satisfactory for its business model. An experienced management team and well-developed risk management structure mitigate risks given the sub-prime lending model.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.



## Methodology and scorecard

### About Moody's Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Overall, the scorecard-indicated standalone assessment range for IPF is ba2-b1. The company's ba3 standalone assessment is positioned in the middle of the range.

### Rating methodology and scorecard factors

The principal methodology used in these ratings was the [Finance Company Methodology](#), published in November 2019. Alternatively, please see the [Rating Methodologies](#) page for a copy of this methodology.

## Instrument class

Exhibit 9

### International Personal Finance plc

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
LT Corporate Family Ratings	ba3	0	0	0	Ba3

*Moody's Investors Service*

## Ratings

Exhibit 10

Category	Moody's Rating
<b>INTERNATIONAL PERSONAL FINANCE PLC</b>	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba3

*Source: Moody's Investors Service*

## Endnotes

<sup>1</sup> Excluding Spain and Finland, which are in collect out, and the UK.

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